Canada's Nuclear Regulator

Canadian Nuclear Safety Commission Quarterly Financial Report For the Quarter Ended September 30, 2013

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Canadian Nuclear Safety Commission
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Canada

Canadian Nuclear Safety Commission Quarterly Financial Report
For the Quarter Ended September 30, 2013

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Canadian Nuclear Safety Commission
Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Program

1. Introduction

This quarterly report has been prepared by management, as required by section 65.1 of the *Financial Administration Act,* and in the form and manner prescribed by the Treasury Board. This quarterly report should be read in conjunction with the Main Estimates and Supplementary Estimates as well as *Canada's Economic Action Plan 2012* (Budget 2012) and previous quarterly financial report for the current year.

1.1 Authority, mandate and program activities

The Canadian Nuclear Safety Commission (CNSC) is an independent regulatory agency and quasi-judicial administrative tribunal, with jurisdiction over all nuclear-related activities and substances in Canada. Its responsibilities and authorities are to regulate nuclear activities in order to protect the health, safety and security of Canadians and the environment, and to implement Canada's international commitments on the peaceful use of nuclear energy.

Further details on the CNSC's authority, mandate and program activities can be found in the Treasury Board's *Reports on Plans and Priorities* and *Main Estimates (Part II).*

The quarterly report has not been subject to an external audit or review.

1.2 Basis of presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the CNSC's spending authorities granted by Parliament and those used by the CNSC consistent with the Main Estimates and Supplementary Estimates for the 2012–2013 and 2013–2014 fiscal years. This quarterly report has been prepared using a special-purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits, through appropriation acts or through legislation, in the form of statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1, preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the Main Estimates on February 28, 2012. As a result, the measures announced in the Budget 2012 could not be reflected in the 2012–2013 Main Estimates.

In fiscal year 2012–2013, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In 2013–2014, the changes to departmental authorities were reflected in the 2013–2014 Main Estimates tabled in Parliament.

The CNSC uses the full accrual method of accounting to prepare and present its annual audited financial statements, which are part of the departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

1.3 CNSC financial structure

The CNSC has a structure where various funding mechanisms are used to deliver its mandate. Most of the CNSC's funding is received from statutory budgetary authorities, with the remainder from voted budgetary authorities.

In Budget 2013, the CNSC received statutory authority – pursuant to paragraph 21(3) of the *Nuclear Safety and Control Act* (NSCA) – to spend during a fiscal year any revenues that it receives in the current or previous fiscal year through the conduct of its operations. The revenues received from regulatory fees for licences and applications are charged in accordance with the *CNSC Cost Recovery Fees Regulations*. This authority to spend revenues provides a sustainable and timely funding regime to address the rapid changes in the regulatory oversight workload associated with the Canadian nuclear industry.

In addition to the statutory authority, the CNSC is also funded through the voted budgetary authority from Parliament - Vote 20 - Program expenditures. Voted authority provides funding for activities exempt from paying fees under the *CNSC Cost Recovery Fees Regulations* (i.e., hospitals and universities), as these entities exist for the public good. Additionally, fees are not charged for activities that result from CNSC obligations that do not provide a direct benefit to identifiable licensees. These include activities with respect to Canada's international obligations (including non-proliferation activities), public responsibilities such as emergency management and public information programs, and the updating of the NSCA and its associated regulations.

Contributions to the employee benefit plans are statutory budgetary authorities.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date Results

This section highlights the significant items that contributed to the net increase or decrease in authorities for the year, and actual expenditures for the quarter and year-to-date ended September 30, 2013.

2.1 Authorities analysis

As reflected in the following authorities table, the CNSC's total authorities available to spend have increased by $4.3 million, or 3.4% as of the end of second quarter of 2013–2014, compared to the same quarter of the previous year. The increase in authorities is due to:

- an increase of $3.9 million in Vote 20 – Program expenditures
- an increase of $0.5 million in budgetary statutory authorities (contributions to employee benefit plans associated with Vote 20 – Program expenditures)
- a decrease of $0.2 million in budgetary statutory authorities (expenditures pursuant to section 21(3) of the NSCA revenue spending authority)

Authorities *(in thousands of dollars)*	2013–2014	2012–2013	Variance
Vote 20 – Program expenditures	**34,977**	**31,051**	**3,926**
Contributions to employee benefit plans	**4,358**	**3,841**	**517**
Expenditures pursuant to paragraph 21(3) of the *Nuclear Safety and Control Act*	**89,486**	**89,663**	**(177)**
Total budgetary expenditures	**128,821**	**124,555**	**4,266**

Vote 20 – Program expenditures and Contributions to employee benefit plans
The total authorities increased by $4.4 million, or 12.7%. The increase is due to:

- a permanent funding in the amount of $7.6 million received through Budget 2012 to continue to regulate and inspect fee-exempt licensees for the use of nuclear devices and activities in Canada, including those at medical and educational institutions
- a permanent reduction of $1.3 million for the implementation of saving measures announced in Budget 2012
- a decrease of $1.8 million due to timing of approval of operating budget carry-forward ($1.2 million) and reimbursement of 2012–2013 eligible paylist expenditures for severance pay, termination benefits and parental benefits ($0.6 million) included in 2012–2013 authorities as of the end of second

quarter; the funding for carry-forward from 2012–2013 and eligible paylist expenditures is expected to be approved in the third quarter of 2013–2014
- a decrease of $0.1 million Treasury Board Secretariat rate adjustment, which reduces the CNSC's contribution to the employee benefit plans authority

Budgetary statutory authority – Expenditures pursuant to paragraph 21(3) of the NSCA
The CNSC statutory authority for expenditures pursuant to paragraph 21(3) of the NSCA is based on the CNSC's forecast of expenditures for the year for activities subject to cost recovery fees, and in 2013–2014 has remained consistent with the previous year.

2.2 Expenditure analysis

Statement of Authorities

Vote 20 – Program expenditures
The authorities used during the second quarter of 2013–2014 and year-to-date (YTD) have increased by $2.7 million and $5.9 million respectively, or 33.8%. This is mainly due to an increase of $3.3 million during the second quarter and $7.7 million YTD in personnel costs attributed to severance pay offset by $0.6 million during the second quarter and $1.8 million YTD for efficiency savings.

Contribution to employee benefit plans
The authorities used during the second quarter of 2013–2014 and YTD, which are monthly installments of the Main Estimates employee benefit plans (EBP) amount, have increased by $0.1 million (to $1.1 million) and by $0.3 million (to $2.2 million) respectively, or 13.5%, due to an increase in the 2013–2014 personnel expenditure authority under Vote 20 – Program expenditures.

Expenditures pursuant to paragraph 21(3) of the NSCA
The authorities used during the second quarter of 2013–2014 and YTD have increased by $1.6 million (to $19.8 million), or 9.0% and by $4.6 million (to $38.4 million), or 13.6% respectively, due to:
- an increase in salary expenditures, related to economic increases through the settlement of the collective agreement
- an increase in the proportion of cost recoverable activities versus those exempt from cost recovery, due to an increase in licensing and certification programs

Budgetary Expenditures by Standard Object

Planned expenditures
The total planned expenditures for the year have increased by $4.3 million, or 3.4%, when compared to the previous year. The increase in planned expenditures for the year is

mostly due to an increase in professional and special services of $5.7 million, or 44.1%, mainly for Shares Services Canada services charged back to the CNSC and funded through statutory authority pursuant to paragraph 21(3) of the NSCA, and partially offset by a decrease of $1.5 million or 1.6% for personnel expenditures resulting mainly from reductions in planned full-time equivalents (FTE), due to shutdown of the Gentilly-2 power plant, announced in 2012.

Expended during the quarter
The total actual budgetary expenditure in the second quarter was up by $4.5 million, or 16.5%.

The second quarter increase in expenditures is driven by an increase in personnel expenditures of $4.5 million, or 21.1%, due to:

- a payout of the accumulation of severance pay for voluntary departures ($3.4 million)
- an increase in base salary, due to collective agreement ($1.0 million)
- an increase in projected contribution to employee benefits ($0.1 million)

The remaining year-over-year variances in actual expenditures by standard object during the second quarter are not significant, and are due only to timing differences.

Year-to-date used at quarter-end
The YTD increase of $10.8 million, or 20.2% in actual expenditures, is mostly due to:

- an increase of $9.9 million, or 23.0%, in personnel expenditures, due to a payout of the accumulation of severance pay for voluntary departures ($7.7 million), an increase in base salary, due to collective agreement ($1.9 million) and an increase in projected contribution to employee benefits ($0.3 million)
- an increase of $0.3 million, or 149.1%, in acquisition of machinery and equipment, due to timing of purchases of office furniture, laboratory equipment and computer software and hardware
- an increase of $0.2 million, or 9.8%, in rentals to host the International Conference on Effective Nuclear Regulatory Systems held in Ottawa, Canada
- timing differences in transportation and communications (an increase of $0.2 million, or 8.4%) and in professional and special services (an increase of $0.2 million, or 4.9%).

3. Risks and Uncertainties

Most of the CNSC's expenditures are funded through revenues from fees received from the industry. While this authority to spend revenues provides a sustainable and timely funding regime to address the increases in the regulatory oversight workload, it also poses a financial risk due to major project delays and unforeseen industry demands.

3.1 Major project delays

In 2013–2014, the CNSC had to adjust its plans to adequately respond to reduced industry projections (i.e., the announcement from the Government of Quebec to shut down the Gentilly-2 nuclear power plant in Bécancour, Quebec), including delays in the announcement of a new nuclear power plant at Darlington and reduced uranium mining development due to the economic downturn and the aftermath of the Fukushima nuclear incident.

The recent announcement from the Government of Ontario to abandon plans to build two new nuclear plants and focus instead on refurbishing its aging facilities will likely have an impact on future CNSC regulatory activity plans. The CNSC is currently evaluating this recent decision, while developing an extended strategic plan to address industry changes and maintain the organization's long-term ability to regulate the nuclear industry.

3.2 Unforeseen demands

The CNSC also faces risk in the form of unforeseen demands (i.e., nuclear accidents, public concerns and related significant and unplanned public hearings). Such demands draw upon the CNSC's financial and human resources otherwise allocated to planned regulatory activities. The CNSC responds to these demands by revising plans and reallocating resources, while maximizing efficiencies.

4. Significant Changes in Relation to Operations, Personnel and Programs

This section provides information about significant changes which occurred at the CNSC during the second quarter of 2013–2014, related to departmental operations, personnel and programs.

As part of Canada's *Responsible Resource Development* plan, the government is strengthening the nuclear safety regime, which protects Canadians and the environment. On July 3, 2013, the new *Administrative Monetary Penalties Regulations* came into force to strengthen safety and environmental protection in Canada's nuclear sector. These new regulations authorize the use of financial penalties for violations of the *Nuclear Safety and Control Act* (NSCA). They are designed to early and effectively address violations and instances of non-compliance with the NSCA, so that larger issues do not arise. The CNSC has begun implementation of the regulations during the second quarter of 2013–2014.

On July 3, 2013, an amendment to the NSCA came into force, providing the CNSC with a new statutory authority – pursuant to 21(3) of the NSCA – to fund its operations from current or prior year's revenues. This authority supersedes the CNSC's previous statutory authority – pursuant to section 29.1(1) of the *Financial Administration Act* – giving it authority to spend revenues it received only in the current year. Annual fees not spent in the current year were deposited in the consolidated revenue fund and were provided in the subsequent year to the CNSC through Vote 20 – Program expenditures, to fund its regulatory activities. The new funding mechanism further improves the recovery of costs for licences issued by the CNSC.

In 2012, the Government of Quebec announced the decommissioning of the Gentilly-2 nuclear power reactor in Bécancour, Quebec. The reduction in regulatory oversight requirements associated with the shutdown decision resulted in a planned reduction of $3.7 million of expenditures in fiscal year 2013–2014 and an additional $3.9 million of expenditures in fiscal year 2014–2015. During the second quarter, the CNSC continued the re-allocation of resources and limiting of external staffing to reduce full-time equivalents (FTE) from 844 planned in 2012–2013 to 824 for 2013–14 and 804 by 2014–2015.

During the 2012–2013 fiscal year, the Public Service Labour Relations Board rendered an arbitral award, subsequently approved by the Governor in Council, on the collective agreement between the CNSC and its union, the Nuclear Regulatory Group. The cost associated with the collective agreement is sourced from existing CNSC funding allocations, and financial impacts are included in the 2013–2014 authorities and expenditure forecasts herein.

5. *Economic Action Plan 2012* (Budget 2012) Implementation

The savings measures announced in Budget 2012 have been implemented in order to refocus government and programs: make it easier for Canadians and business to deal with their government and, modernize and reduce the back office.

The CNSC will achieve Budget 2012 savings of $1.3 million by the end of fiscal year 2013–2014. The CNSC will achieve these savings through efficiency measures and program reductions that align resources to its core mandate, scaling back where the need is reduced, transforming how it works internally, and consolidating and streamlining its activities. With these changes, the CNSC will focus on supporting management excellence and accountability across Government.

In 2012–2013, the first year of implementation, the CNSC achieved savings of $0.5 million. The proposed savings will result in ongoing saving of $1.3 million by 2013–2014.

There are no financial risks or uncertainties related to these savings.

In Budget 2012, the CNSC also received a permanent incremental funding of $7.6 million through Vote 20 – Program expenditures and statutory authority Contributions to employee benefit plans. The incremental funding to renew sunsetting funds provided the CNSC funding to cover the costs of licensing nuclear equipment and substances at educational institutions, medical institutions and government departments.

6. Approval by Senior Officials

Approved by:

Original signed by

Michael Binder
President

Original signed by

Stéphane Cyr
Chief Financial Officer

Ottawa, Canada
Date:

Appendix

Statement of Authorities *(unaudited)*

(in thousands of dollars)	Fiscal year 2013–2014			Fiscal year 2012–2013		
	Total available for use for the year ending March 31, 2014 *	Used during the quarter ended September 30, 2013	Year-to-date used at quarter-end	Total available for use for the year ended March 31, 2013 *[1]	Used during the quarter ended September 30, 2012	Year-to-date used at quarter-end
Vote 20 – Program expenditures	34,977	10,863	23,532	31,051	8,118	17,591
Budgetary statutory authorities						
Contribution to employee benefit plans	4,358	1,090	2,179	3,841	960	1,920
Expenditures pursuant to paragraph 21(3) of the *Nuclear Safety and Control Act*	89,486	19,806	38,418	89,663	18,172	33,824
Total budgetary authorities	**128,821**	**31,759**	**64,129**	**124,555**	**27,250**	**53,335**
Non-budgetary authorities	-	-	-	-	-	-
Total authorities	**128,821**	**31,759**	**64,129**	**124,555**	**27,250**	**53,335**

More information is available in the attached table.
* Includes only authorities available for use and granted by Parliament at quarter-end.
[1] Total available for use does not reflect measures announced in Budget 2012.

Budgetary Expenditures by Standard Object *(unaudited)*

(in thousands of dollars)	Fiscal year 2013–2014			Fiscal year 2012–2013		
	Planned expenditures for the year ending March 31, 2014 *	Expended during the quarter ended September 30, 2013	Year-to-date used at quarter-end	Planned expenditures for the year ending March 31, 2013 * [1]	Expended during the quarter ended September 30, 2012	Year-to-date used at quarter-end
Expenditures:						
Personnel	90,983	25,912	53,001	92,434	21,399	43,084
Transportation and communications	6,344	962	2,007	5,512	878	1,852
Information	1,181	170	388	950	196	360
Professional and special services	18,678	2,968	5,015	12,966	2,828	4,782
Rentals	3,823	1,102	2,261	3,647	1,328	2,059
Repair and maintenance	2,050	172	225	3,303	137	177
Utilities, materials and supplies	1,246	165	269	1,129	164	325
Acquisition of land, buildings and works	-	-	-	-	(7)	-
Acquisition of machinery and equipment	2,582	203	556	2,974	143	223
Transfer payments	1,770	108	356	1,516	246	407
Other subsidies and payments	164	(3)	51	124	(62)	65
Total net budgetary expenditures	**128,821**	**31,759**	**64,129**	**124,555**	**27,250**	**53,335**

* Includes only authorities available for use and granted by Parliament at quarter-end.
[1] Total available for use does not reflect measures announced in Budget 2012.